

January 12, 2007

Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth St., S.W.
Washington, D.C. 20554

Re: Notice of Ex Parte Presentation:
Federal-State Joint Board on Universal Service,
CC Docket Nos. 96-45; 05-337

Dear Ms. Dortch:

Gene Dejordy, Stephanie Johanns, Steve Mowery and I made ex parte presentations to the following parties on January 11th, 2006, at the Commission:

Commissioner Deborah Tate and Ian Dilner;

Scott Deutchman of Commissioner Copps' office;

Ted Burmeister, Katie King, Vicki Robinson, Gary Seigel, Jennifer Prime and Belinda Nixon of the Wireline Bureau.

We discussed a myriad of issues within the context of the ongoing "rural basis of support" proceeding being deliberated by the Joint Board on Universal Service. I have attached the presentation we left behind.

If you have any questions, then please contact me at 202-783-3979.

Respectfully submitted,

Mark Rubin
Vice President, Federal Government Affairs
Alltel Corp.



Wireless Universal Service

January 2006





Discussion Points

1. Background
 - Alltel
 - USF and ETC
2. Support for CETCs Furthers The Goals of Universal Service
3. USF: Wireless Carriers Are the Largest Contributors
4. CETCs Preserve and Advance Universal Service
5. Distributing USFs To CETCs
6. Conclusion



Background: Alltel

- Today, Alltel is a wireless-only carrier that provides service in 35 states.
 - In July 2006, Alltel spun-off its wireline local exchange business in 15 states, which was combined with Valor to form Windstream.
- Prior to the spin:
 - Alltel Wireline had 2.7M customers in 15 states and was an ETC throughout its service area and was eligible to receive approximately \$95M in federal USF support and approximately \$42M in state USF support.
- Alltel Wireless currently serves some of the most rural, sparsely-populated areas of the U.S.
 - Alltel has the largest wireless network in the U.S. in terms of geography served, but is the fifth largest wireless carrier in terms of total number of customers due to the population density of Alltel's service area.
 - Alltel Wireless has more than 11M customers in 35 states and is an ETC in 26 states, but not throughout its service area.
 - The challenge for Alltel and any rural carrier – wireline or wireless – is constructing and operating a network in high-cost areas.
 - USF support provides the necessary funds that enables communication service to be available in rural, high-cost areas.



Background: USF and ETC

- Prior to 1996, only ILECs were eligible for USF support, resulting in minimum wireless build-out in rural areas.
- 1996 Act requires:
 - Designation of carriers – competitive or incumbent – as ETCs for purposes of federal universal service support [Section 214(e)].
 - Establishment of an explicit and sufficient funding mechanism for all ETCs [Section 254(b)].
- FCC rules require:
 - Competitive and technological neutrality
 - Portability of USF support
- Court decisions require:
 - Portability of support levels (Alenco)
 - Non-discrimination between eligible carriers (Alenco)
- State and FCC ETC designations:
 - The FCC and 44 states have determined the public interest is served by designating wireless carriers as eligible for USF support.



Background: USF Support Mechanisms

USF support mechanisms consist of the following:

1. Explicit federal funds

Annualized 1Q 07

Projected USF
Distributions

▪ High-cost loop (HCL)	\$1,416,600,000
▪ High-cost model (HCM)	\$346,464,000
▪ Local switching (LSS)	\$490,108,000
▪ Interstate common line (ICLS)	\$1,290,852,000
▪ Interstate Access Service (IAS)	<u>\$720,348,000</u>
▪ Total high-cost USFs	\$4,264,372,000
▪ Low-income fund	\$814,628,000
▪ Schools & Library fund	\$2,250,000,000
▪ Rural health care fund	\$157,760,000

2. Explicit state funds

- Typically limited to ILECs

3. Implicit USF support

- Access charges available only to ILECs
 - Some states, like SD, with 14 cent intrastate access charges



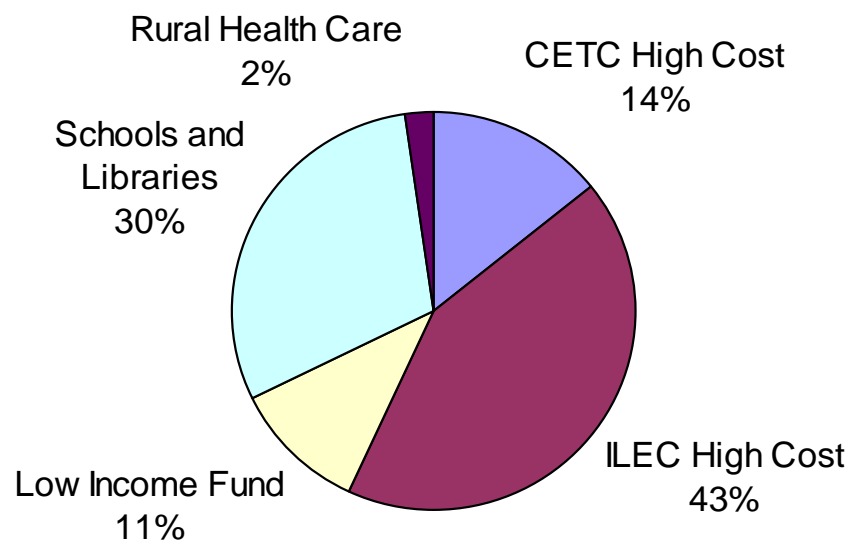
State Universal Service Funds (Alltel areas)

State	Amount	Contributors	Receivers
Arizona		ILEC / Wireless	ILEC
Arkansas	\$15.5M	ILEC / Wireless	ILEC
California		ILEC / Wireless	ILEC
Colorado		ILEC / Wireless	ILEC
Idaho		ILEC	ILEC
Illinois	\$8.6M	ILEC	ILEC
Kentucky		ILEC / Wireless	ILEC
Louisiana	\$24M	ILEC / Wireless	ILEC
Nevada		ILEC / Wireless	ILEC
New Mexico	\$22M	ILEC / Wireless	ILEC
Oklahoma		ILEC / Wireless	ILEC
South Carolina	\$54M	ILEC	ILEC
Texas	\$540M	ILEC / Wireless	ILEC(532M) / Wireless(8M)
Wisconsin	\$6M	ILEC	ILEC



Background: USF Support Mechanisms

1Q 07 Annualized USAC Projected Distributions





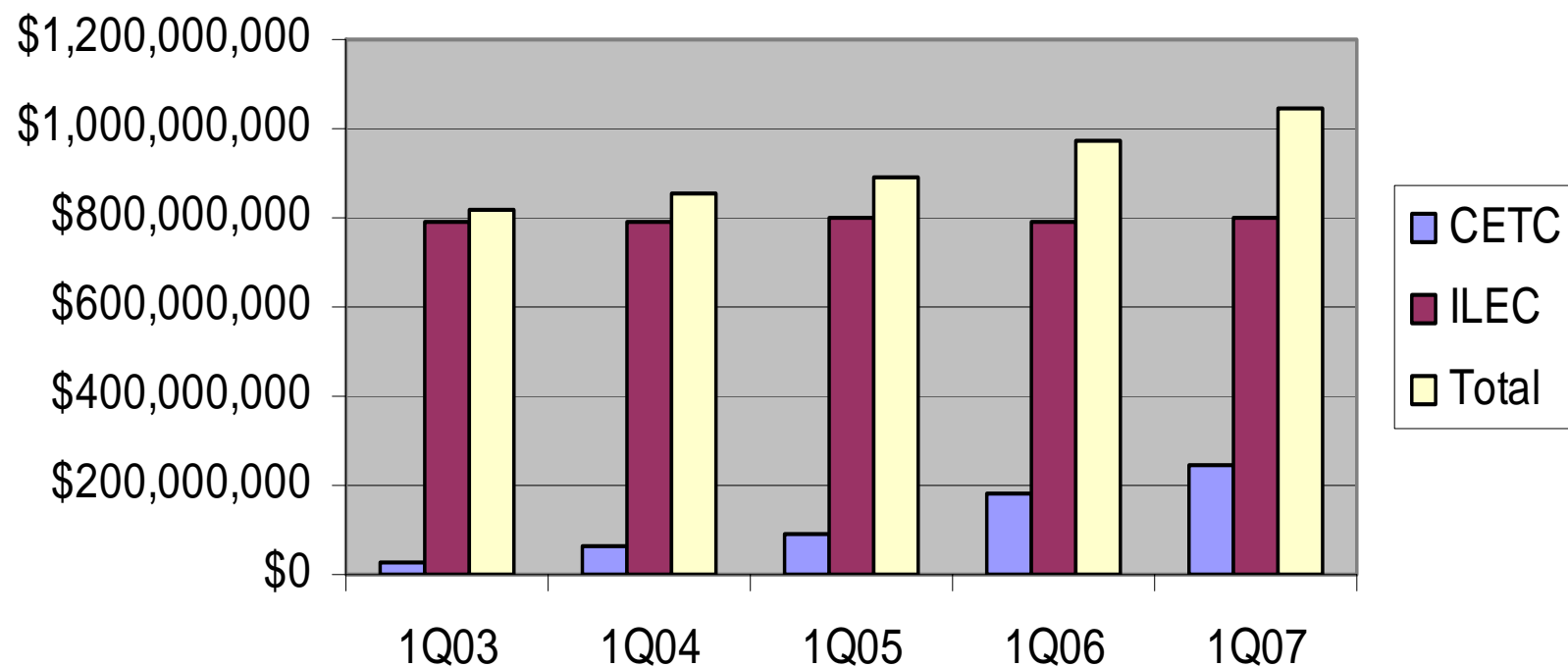
Support for CETCs Furthers The Goals of Universal Service

- How: by making support portable to carriers serving rural areas, consumers are realizing the benefits envisioned by Congress, the FCC, and state commissions in establishing a competitive universal service system that is consumer-focused.
 - 44 states have concluded that the public interest is served by designating wireless carriers as ETCs
 - An increasing number of consumers (approximately 10%) have cut-the-cord and rely on wireless service for their basic, advanced, and emergency communications needs
 - Previously unserved rural areas now have access to wireless service
 - Consumers in rural areas have access to communications service that meets their evolving needs
 - A reliable wireless service network is necessary for national security and public safety needs
 - Following Katrina, wireless carriers were asked by the FCC to participate in the universal service program (if not already participating) to address the communications needs of individuals and rescue personnel
 - Alltel provided free service to many consumers displaced by Katrina and has spent millions on network improvements



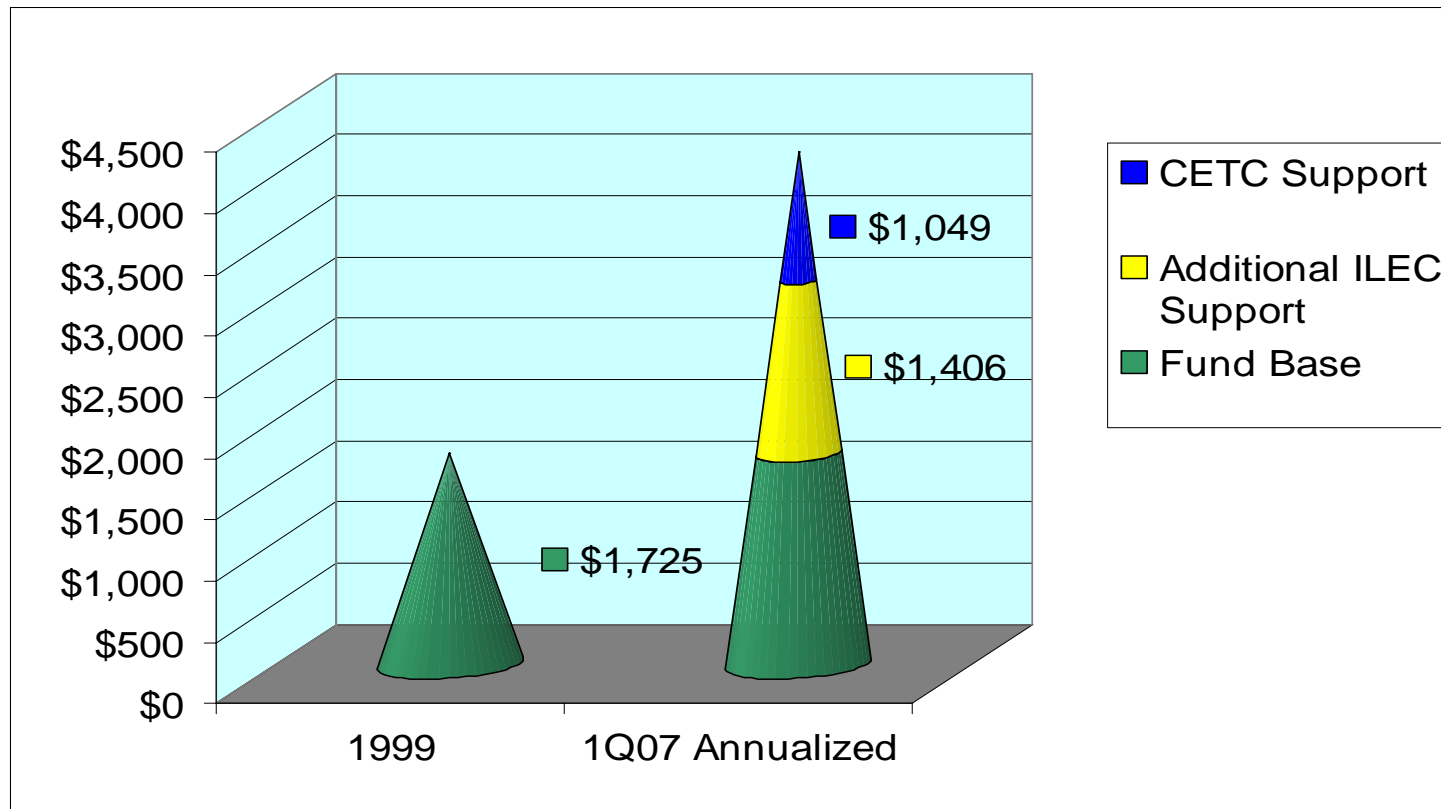
Support for CETCs Furthers The Goals of Universal Service

Quarterly USF High-Cost Distributions





Support for CETCs Furthers The Goals of Universal Service



* CETCs are responsible for only about 40% of the growth of the USF since 1999.



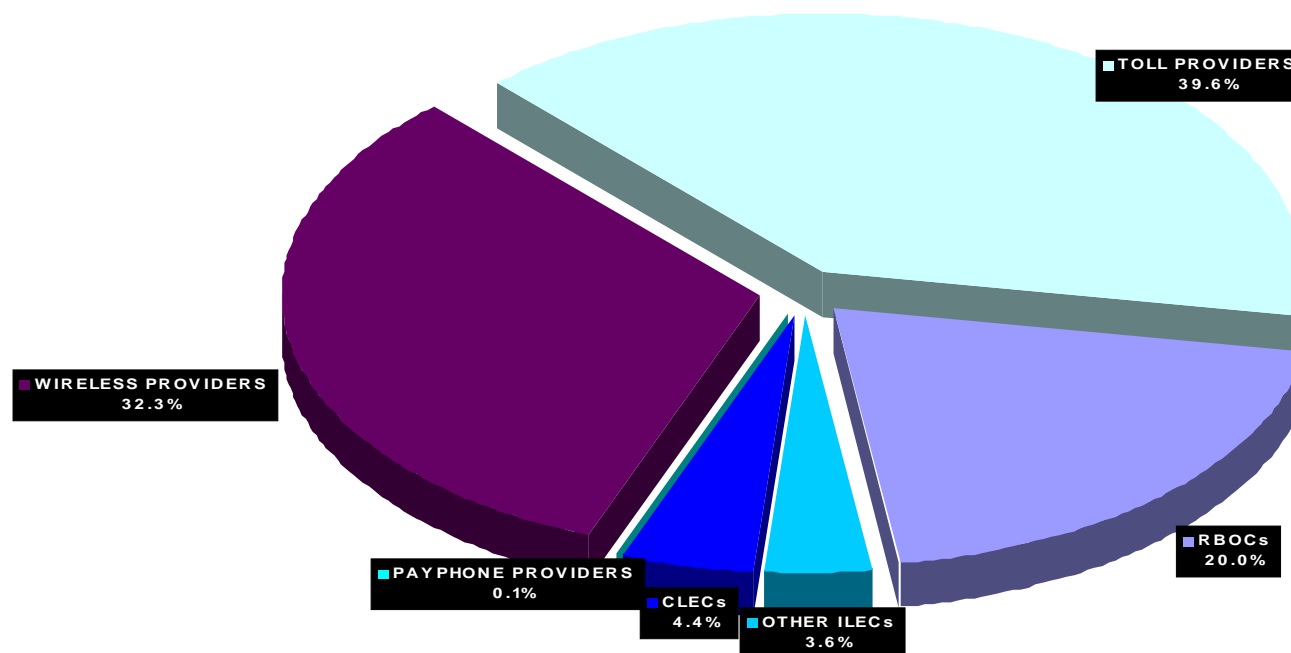
USF: Wireless Carriers Are the Largest Contributors

USF Support for CETCs Preserves and Advances Universal Service by:

- Allowing the largest contributor to the USF to use USF support to meet consumer needs
- Introducing the benefits of competition in rural areas by making support portable to carriers serving consumers' needs
- Making wireless Lifeline services available to consumers.
- Point: Wireless contributions are increasing at a high rate than wireless distributions
 - *USF Distributions differential 2003 to 2005: \$579,000,000**
 - *USF Contributions differential 2003 to 2005: \$900,000,000***
 - * \$126,000,000 in 2003 to \$705,000,000 in 2005
 - ** \$1,400,000,000 in 2003 to \$2,300,000,000 in 2005
- New Safe-Harbor requirements will increase wireless contributions significantly in 2007.

USF: Wireless Carriers Are the Largest Contributors*

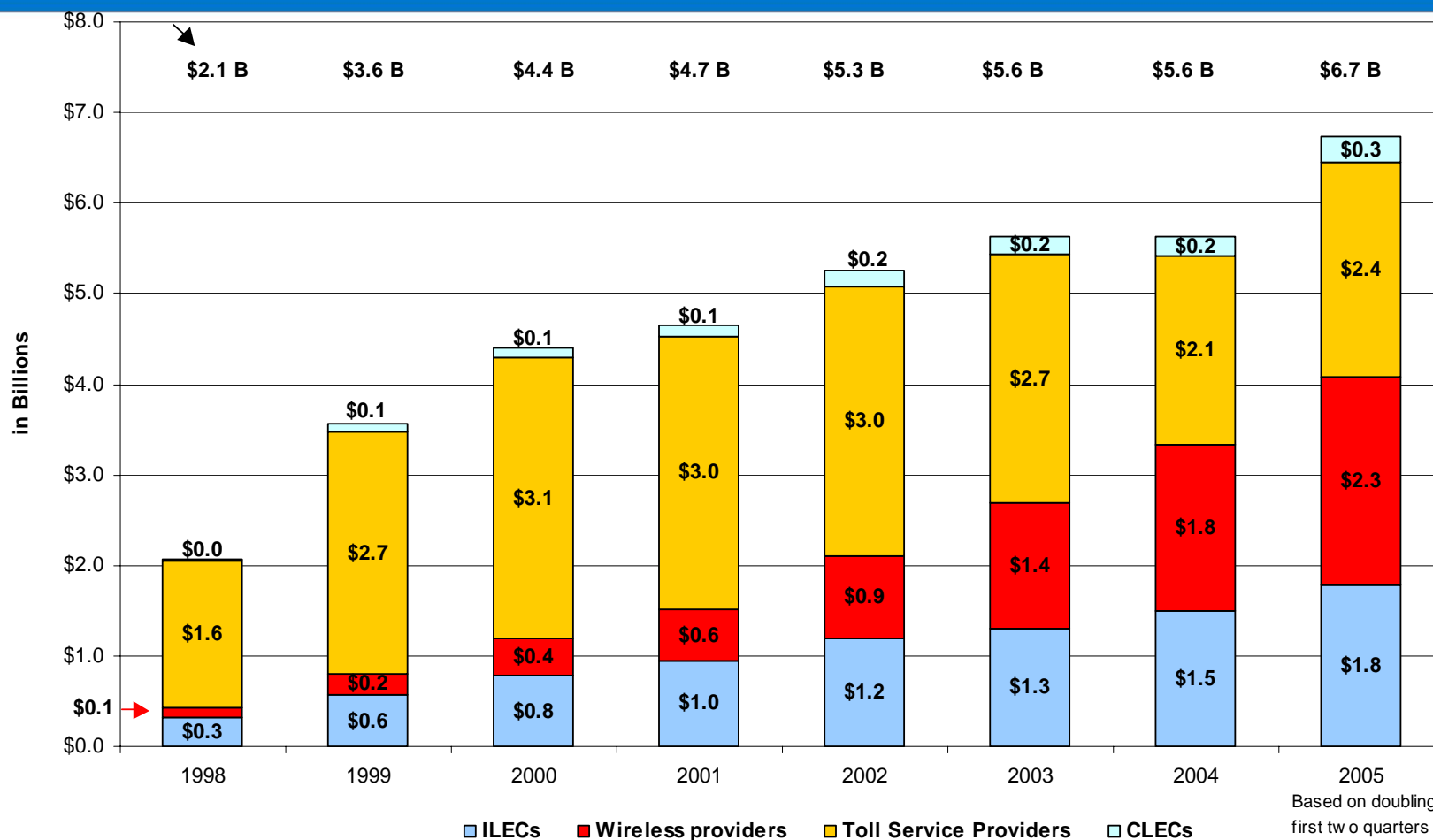
FIRST QUARTER 2006 - PROJECTED CONTRIBUTION LEVELS



*USF Support for CETCs Preserves and Advances Universal Service by allowing the largest contributor (it is anticipated that the increase in the wireless safe harbor together with declining toll revenue will result in wireless being the largest USF contributor in 4Q06) to the USF to use USFs to meet consumer needs.



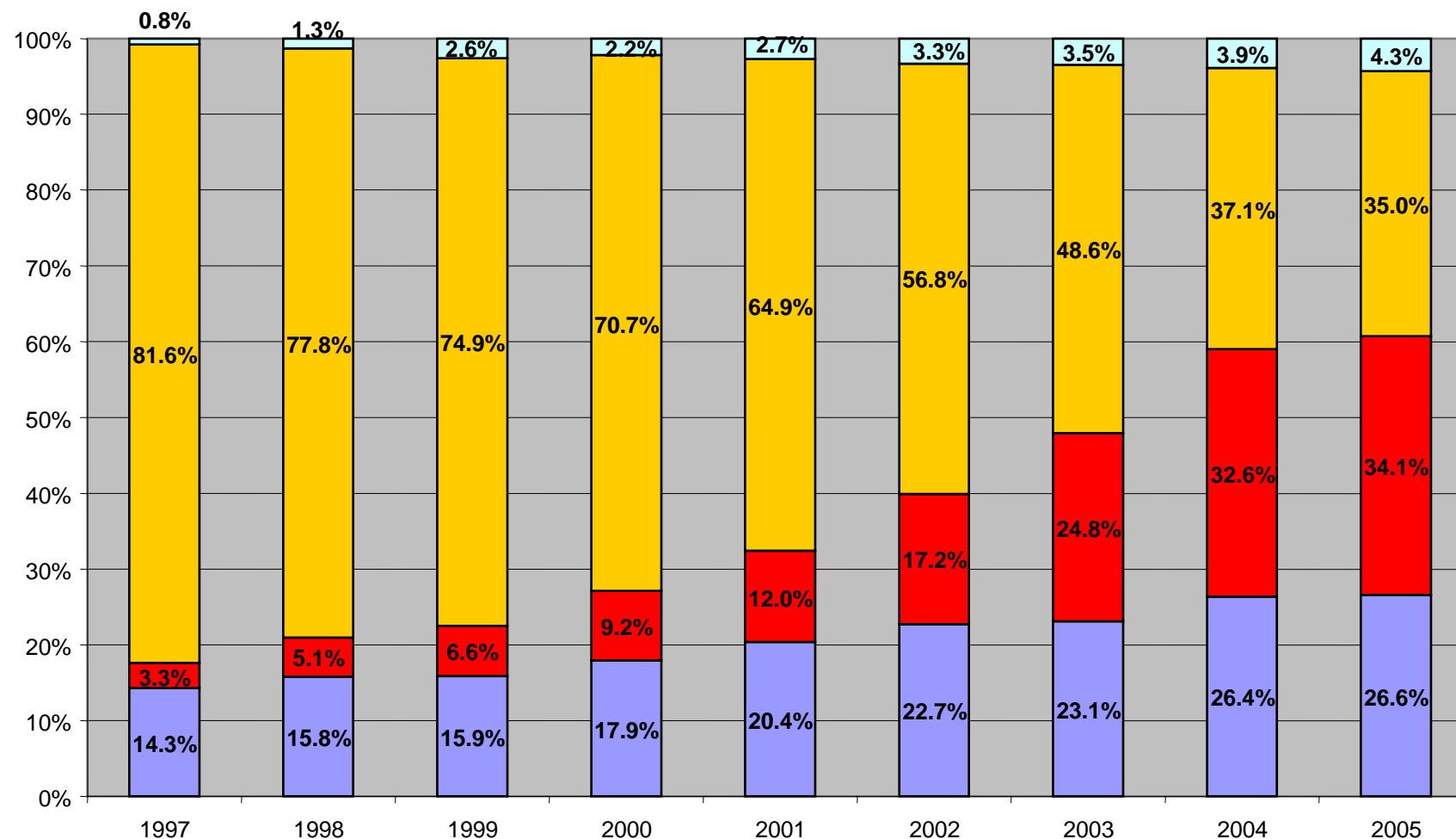
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USF: Wireless Carriers Are the Largest Contributors*



* See note on previous page

Source: FCC Revenues Report

ILECs Wireless providers Toll Service Providers CLECs



CETCs Preserve and Advance Universal Service

USF Support for CETCs:

- Preserves Universal Service by allowing the universal service program to keep pace with the needs of consumers for access to wireless service
 - See Attachment A for letters from rural stakeholders
- Advances Universal Service by making service available to unserved and underserved areas
 - See Attachment B for some illustrations
- Advances Universal Service by providing rural communities with the benefits of universal service funding
 - See Attachment C for annual certifications that demonstrate how USFs are being used to advance universal service
 - See Attachment D for Texas economic study
- State commission ETC decisions confirm that the goals of universal service are being met by CETCs



CETCs Preserve and Advance Universal Service

Testimonials

- Virginia Cellular's universal service offering will provide benefits to customers in situations where they do not have access to a wireline telephone. For instance, Virginia Cellular has committed to serve residences to the extent that they do not have access to the public switched network through the incumbent telephone company. Also, the mobility of Virginia Cellular's wireless service will provide other benefits to consumers. For example, the mobility of telecommunications assists consumers in rural areas who often must drive significant distances to places of employment, stores, schools, and other critical community locations. In addition, the availability of a wireless universal service offering provides access to emergency services that can mitigate the unique risks of geographic isolation associated with living in rural communities... *FCC Virginia Cellular ETC Order.*

CETCs Preserve and Advance Universal Service

Testimonials

- “The Commission finds that designating Western as an additional ETC in the study area of each rural telephone company will services to North Dakota consumers, by bringing competitive advance universal service by bringing new telecommunications choice for universal services to residential customers, by offering a highly reliable and top quality universal service offering, and by providing cost effective means for customers in remote areas to acquire universal services.” *North Dakota ETC Order.*
- “At least three of the goals underlying federal and state policies favoring competition – customer choice, innovative services, new technologies – would be served by facilitating [Western Wireless’] entry with universal service subsidies.” *Minnesota ETC Order.*
- “The Hearing Examiner finds that designating Western Wireless is in the public interest because consumers will benefit from competitive service and new technologies in high cost rural areas.” *New Mexico Recommended ETC Decision.*

CETCs Preserve and Advance Universal Service

Testimonials

- “We find that the provision of competitive service will facilitate universal service to the benefit of consumers in Wyoming by creating incentives to ensure that quality services are available at just, reasonable, and affordable rates. We believe that competition may provide incentives to the incumbent to implement new operating efficiencies, lower prices, and offer better service. We reject the general argument that rural areas are not capable of sustaining competition for universal service support. We do not believe it is self-evident that rural telephone companies cannot survive competition from wireless providers. Specifically, we find no merit to the contention that designation of an additional ETC in areas served by rural telephone companies will necessarily create incentives to reduce investment in infrastructure, raise rates, or reduce service quality to consumers in rural areas.” *FCC Wyoming ETC Order*.



CETCs Preserve and Advance Universal Service

Testimonials

- “If ALLTEL is granted ETC status, customers, particularly Lifeline and Linkup customers, will have the benefits of a substantially increased local calling area. This could serve to reduce their toll bills and could make the service offered by an alternative ETC much more economically desirable.” *Arkansas ETC Order.*
- “In this case, designating ALLTEL as an ETC is in the public interest because it is likely to promote competition and provide benefits to customers in rural and high-cost areas by increasing customer choice, while promoting innovative services and new technologies, and encouraging affordable telecommunications services. Further, ALLTEL provides service where there are few, if any competitive local exchange carriers.” *Michigan ETC Order.*



CETCs Preserve and Advance Universal Service

Testimonials

- “The Commission finds that designating ALLTEL as an ETC in areas served by rural companies will increase competition in those areas and, so, will increase consumer choice. While it is true that ALLTEL is currently serving in at least some of these areas, the availability of high cost support for infrastructure deployment will allow ALLTEL to expand its availability in these areas. Further, designation of another ETC may spur ILEC infrastructure deployment and encourage further efficiencies and productivity gains. Additional infrastructure deployment, additional consumer choices, the effects of competition, the provision of new technologies, a mobility option and increased local calling areas will benefit consumers and improve the quality of life for affected citizens of Wisconsin.” *Wisconsin ETC Order.*



Distributing USFs to CETCs

Point: Wireless carriers are not receiving a windfall from the USF, but are spending USFs in a manner envisioned by Congress, the FCC and state commissions.

Proof:

- Legal requirement to spend USF consistent with 254(b)
- Certification requirements to demonstrate use of funds
- Portability of federal USF support is just a fraction of the total USF support received by the ILECs
 - See Exhibit A: USF Support Comparison
- Today, Alltel receives approximately \$11M per year in USF support in SD, but based upon a cost study performed by an outside consultant, Alltel would receive approximately \$12M in support if based upon its actual efficient costs.



Distributing USFs to CETCs

Annual Certifications: Reconfirms Public Interest Benefits of CETC Designations

- Majority of states have adopted in whole or in part the FCC rules governing annual certifications
 - Many states have adopted 2-year plans instead of 5-year build out plans
- Build-out plans demonstrate how USFs are be used to “preserve and advance” universal service
 - See attached certification for Alltel in Minnesota and Nebraska
 - Compare to the attached ILEC certifications in MN and NE (See Attachment E)
 - CETC certifications demonstrate how USFs are being properly used to serve rural areas



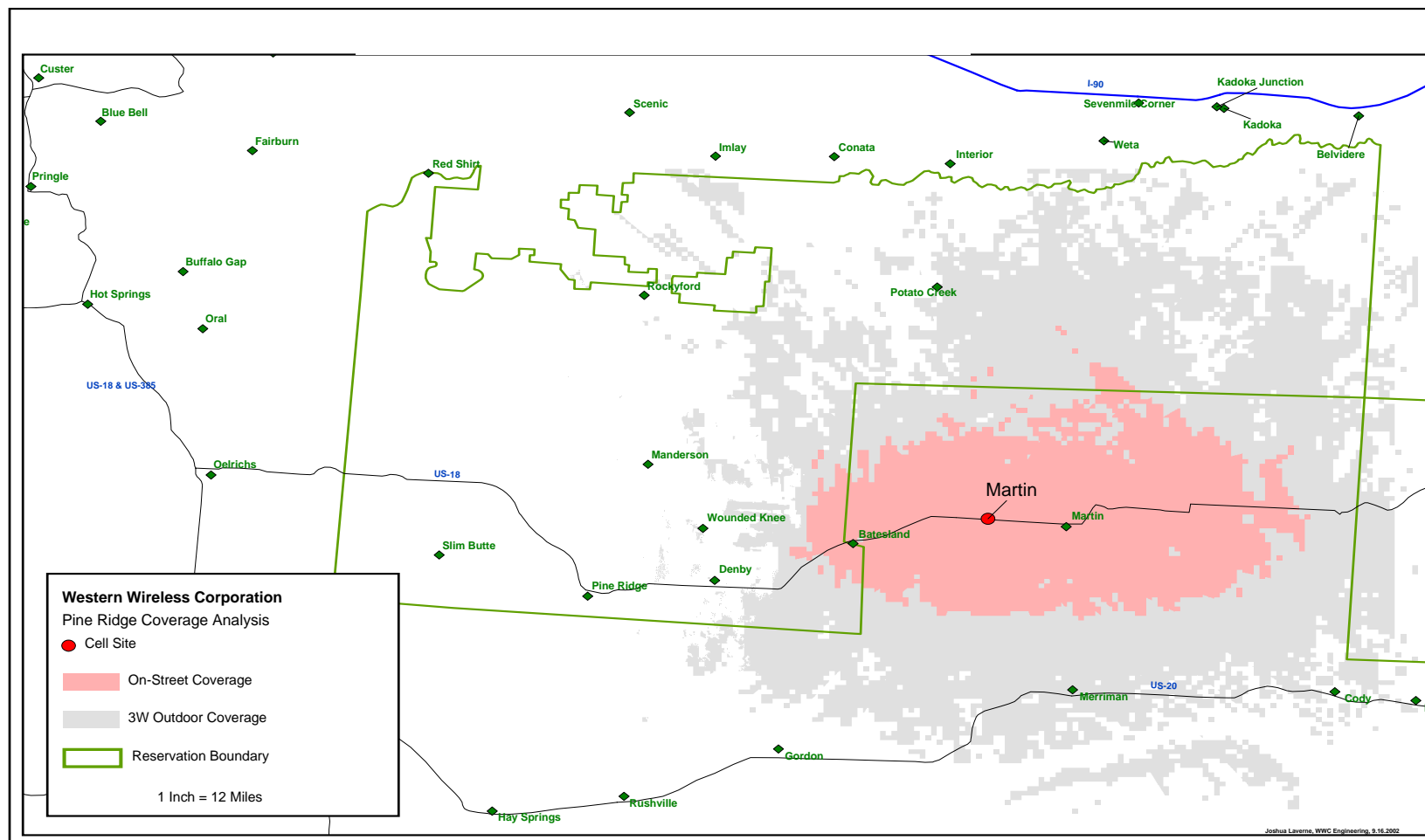
Distributing USFs to CETCs

USFs are critical for the build-out of wireless networks in rural areas
(*some examples*):

- In South Dakota, Alltel constructed more than 3 times the number of cell sites in 2004 (in addition to enhancements/upgrades of existing sites) compared to previous years due to universal service support and is continuing with an aggressive build-out.
- In Montana, Alltel is constructing more than 2 times the number of cell sites in 2006 (in addition to enhancements/upgrades of existing sites) compared to previous years due to universal service support and will accelerate the build-out upon receiving ETC designation in rural areas.
- In Kansas, Alltel is building an unprecedented number of cell sites in rural areas due to universal service support.
- In Nebraska, Alltel committed to constructing more than 30 cell sites in rural areas as part of its ETC designation in 2006.

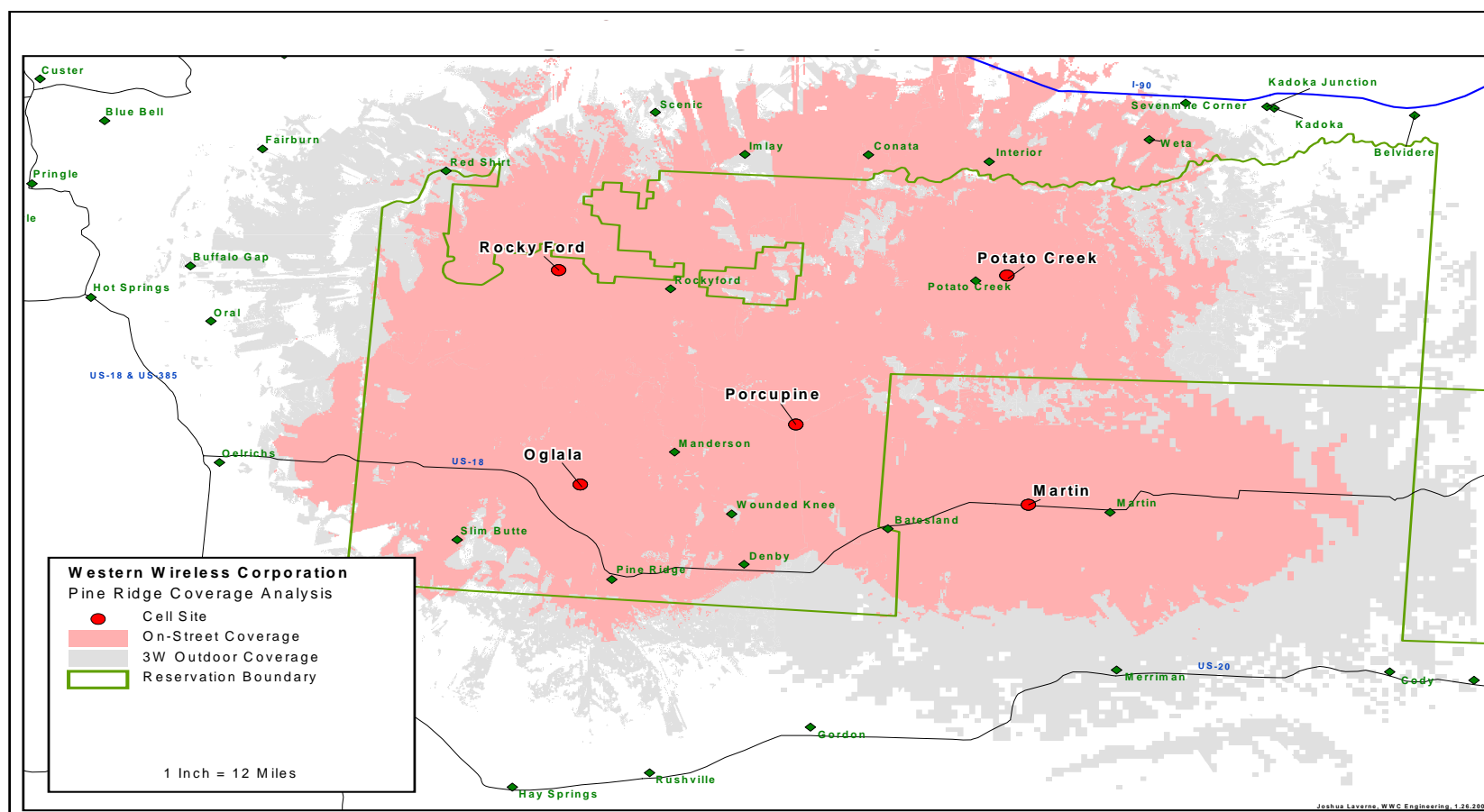
Distributing USFs to CETCs

Pine Ridge Indian Reservation Coverage Pre-ETC Designation



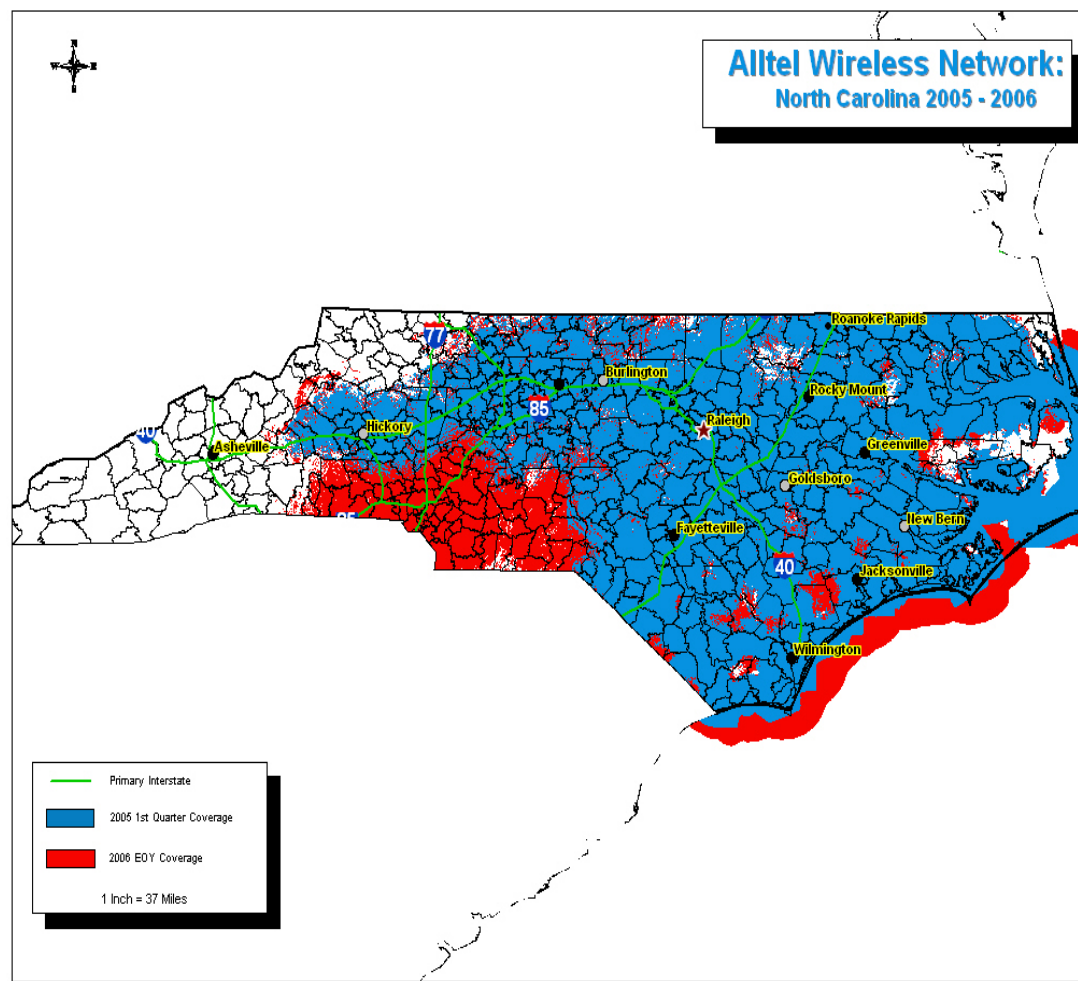
Distributing USFs to CETCs

Pine Ridge Indian Reservation Coverage Post-ETC Designation



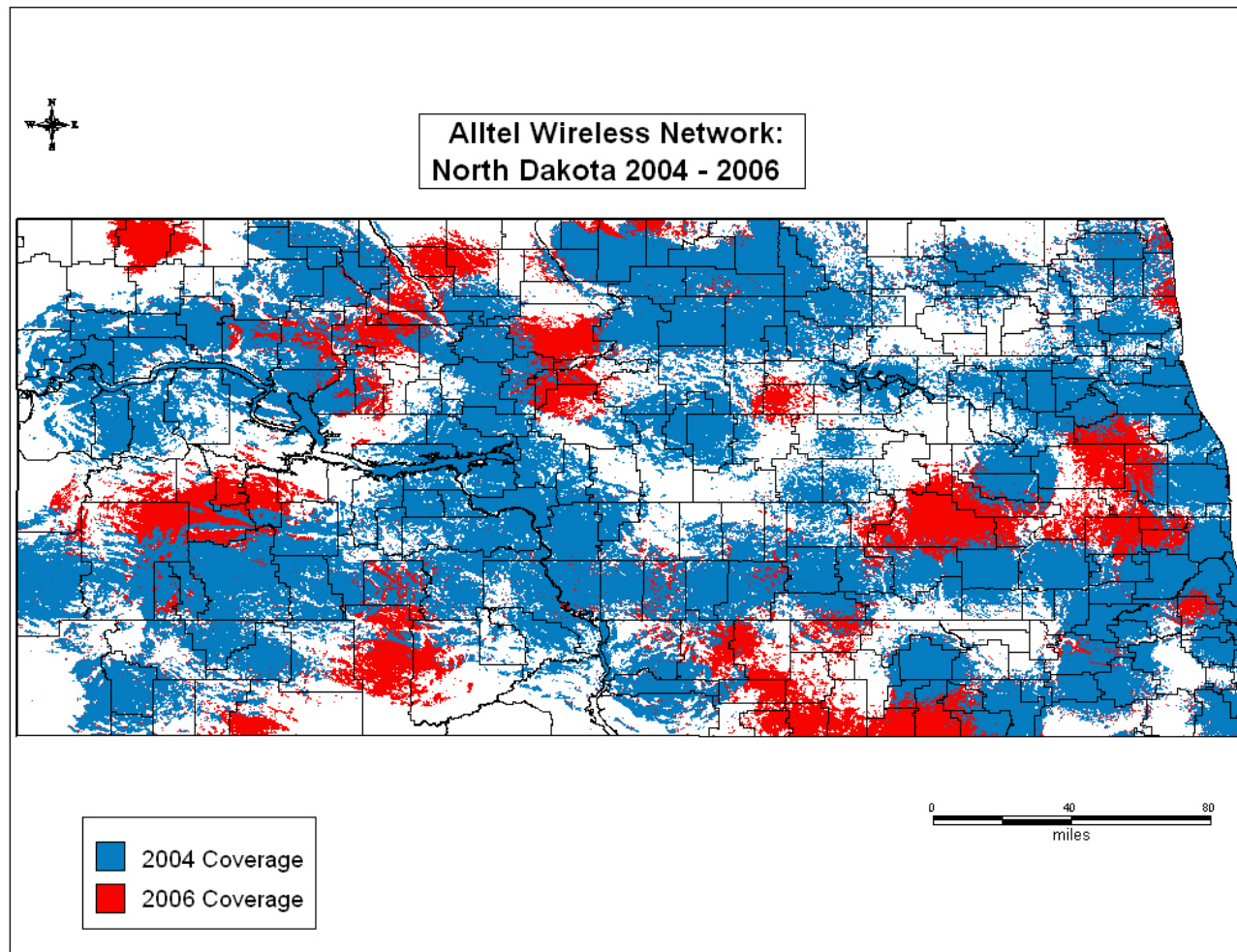


Alltel's Use of ETC funds



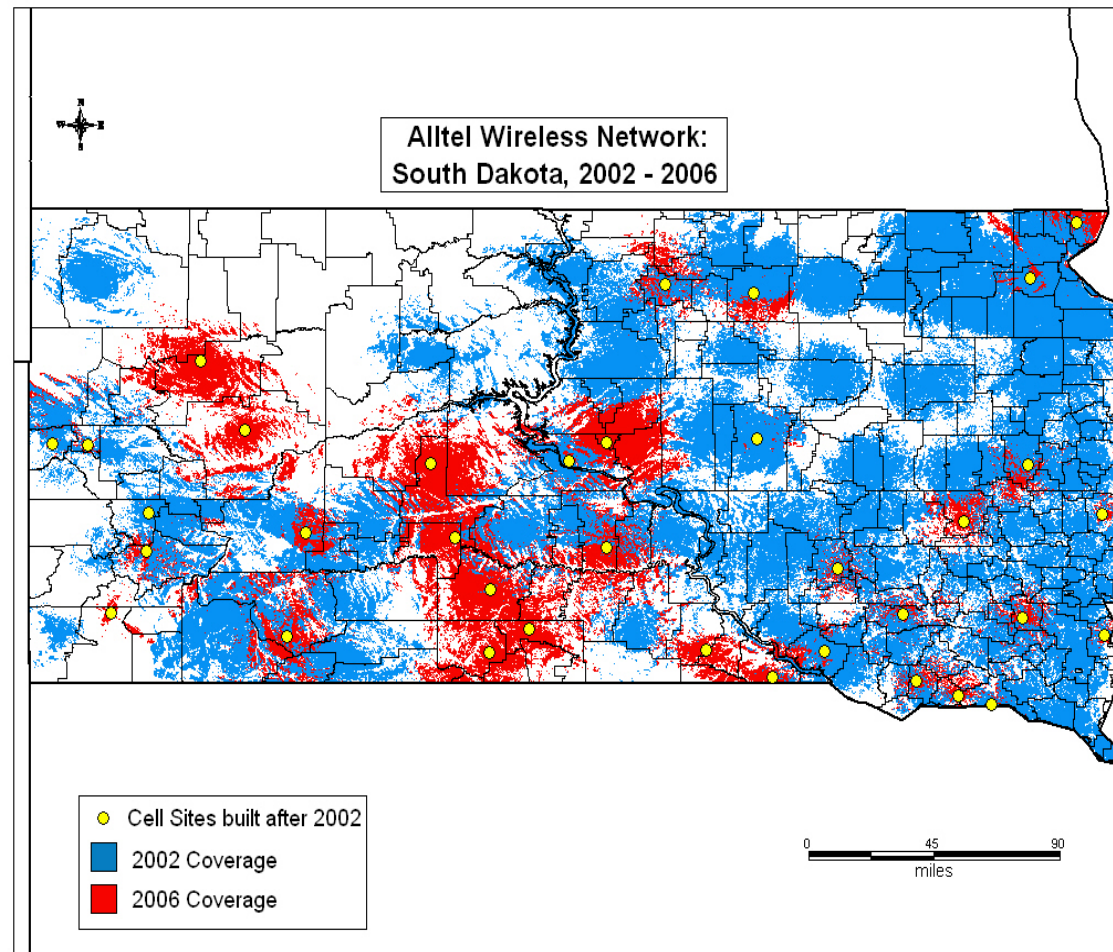


Alltel's Use of ETC funds





Alltel's Use of ETC funds



Distributing USFs to CETCs

Why is USF so critical to rural wireless build-out?

- Rural areas cover a lot of geography with low population density and high-cost of service.
- For example, interconnection rates in urban areas are significantly less than in rural areas:
 - In SD, the recip comp rate in Qwest area is .07 cents per MOU and the intrastate access rate is approximately 1.6 cents per MOU compared to a recip comp rate of 2 cents per MOU and an intrastate access rate of 14 cents per MOU in some rural areas.
 - The impact on cost of service is significant: if a wireless carrier terminates 400 MOUs to customers served by rural telcos in SD, then the interconnection cost of service alone would be \$12 per month (e.g., 400 MOUs times an average 3 cent termination rate per MOU), compared to an interconnection cost of service of \$1 per month (e.g., 400 MOUs times an approximate .25 cent termination rate per MOU) to terminate 400 MOUs to customers in urban areas served by Qwest.

❖ ***A cost differential of 12 times in rural areas.***



USF Reform: CETC Support

Portability of Federal USF Support Is Good Public Policy Supported By The Facts and the Law.

The Law: “Furthermore, portability is not only consistent with predictability, but also is dictated by principles of competitive neutrality and the statutory command that universal service support be spent “only for the provision, maintenance, and upgrading of facilities and services for which the [universal service] support is intended.” *Alenco 5th Circuit USF Decision*

The Facts

- (1) wireless CETCs only receive a fraction of the universal service support received by the ILECs
- (2) wireless CETCs must demonstrate how they are using USF support – and actually are using support to deploy service in underserved areas
- (3) wireless CETCs have the same obligations as ILECs under federal law to serve customers throughout their universal service areas
- (4) based upon a CostQuest cost study, Alltel’s per-line costs are higher than rural ILECs’ costs in certain areas, which would result in more USF support for CETCs if based on their own costs



USF Reform: Myths and Realities

Myth #1: Wireless carriers are realizing a windfall by receiving the same USF support as the ILECs.

Fact: The facts are:

(1) wireless CETCs only receive a fraction of the universal service support received by the ILECs –

for example, in South Dakota, the ILECs receive \$56M in explicit federal USF support and have 14 cent access rates (implicit subsidy), whereas CETCs receive \$28M in federal USF support and do not receive access charges;

(2) wireless CETCs must provide a detailed demonstration of how they are using USF support –

for example, in South Dakota, Alltel provides the state commission its USF receipt and expenditure information, along with a cell site build-out plan, that demonstrates how it uses USF to further the goals of universal service (in contrast, ILECs typically do not provide this level of information); and

(3) wireless CETCs do not necessarily incur lower costs than the ILECs –

based upon a cost study performed by CostQuest, Alltel would receive \$1M more in USF support (\$11.2M) in South Dakota than it receives today (\$10.2M) if its USF support were based upon its own costs.



CETC Cost Study

Alltel retained CostQuest to study its costs, compare those costs to the ILEC costs, and determine the impact on federal USF support.

- ❖ The cost study focused on South Dakota where Alltel is an ETC because of readily available cost data.
- ❖ The cost study mirrored, as close as possible, the way costs are reported by the ILECs.
- ❖ The results showed that Alltel's wireless costs are between \$1 and \$2 per subscriber higher than the NECA ILEC loop costs for SD.
 - ❖ In SD:
 - CETC funding based upon ILEC costs = \$10,270,173.00
 - CETC funding based upon own costs = \$11,270,033.00

USF Reform: Myths and Realities

Myth #2: Wireless CETCs do not have COLR obligations and therefore do not serve all consumers within their designated service areas.

Fact: The facts are:

(1) wireless CETCs are subject to the same COLR-type regulations as ILEC ETCs under federal law – to serve all consumers throughout their designated service area

(note, however, that due to ILEC market power, they are subject to different obligations under state and federal law than competitive providers);

(2) the FCC has ruled that all ETCs – wireless and ILEC – do not need to have facilities in place at the time of designation to serve throughout their designated service area, but they must, upon request, serve all consumers;

(3) if a consumer makes a request for service in an “unserved” area, then the CETC must provide service in accordance with the 6-step provisioning process established in FCC *VA Cellular Order*; and

(4) ILEC line extension tariffs frequently impose hefty rates for extending service to locations where costly build-out of their networks is needed to serve a customer.



USF Reform: Myths and Realities

Myth #3: Wireless CETCs are not preserving and advancing universal service.

Fact: The facts are:

- (1) in 1996, Congress defined universal service to be, among other things, an evolving service received by a substantial majority of consumers, and today, more consumers subscribe to wireless service than wireline service;
- (2) state commissions in 44 states and the FCC has found, after extensive factual and legal findings and conclusions, that the public interest is served by the designation of wireless CETCs;
- (3) wireless carriers are (i) serving areas previously unserved or underserved by the ILECs, (ii) offering services that better meet the universal service needs of consumers, and (iii) establishing ubiquitous service in rural areas required to meet the needs of universal service, national security, and consumer welfare; and
- (4) Alltel in particular has a great track record of deploying service to unserved areas and improving service in underserved rural areas, which would not have been possible without USF support.



USF Reform: Alltel Reform Proposals

Step One: Problem Identification – several potential universal service funding problems have been identified by various interest groups, but the ones most often cited are:

1. Inefficient funding mechanism for rural ILECs;
2. Illogical funding distributions to non-rural ILECs; and
3. Growing support to CETCs.



USF Reform: Alltel Reform Proposals

Step Two: Understanding The Potential Problems – prior to developing solutions, one needs to separate the rhetoric of advocacy from the actual factual situation as follows:

1. Inefficient funding mechanism for rural ILECs is based upon the rural ILECs getting revenues from the federal USF, state USFs, and access charges under rules that simply cover every dollar they spend (rate of return system), without any requirement to operate in the most efficient manner (a real problem);
2. Illogical funding distributions to ETCs in non-rural ILEC areas is based upon non-rural carriers in 40 states receiving no high cost support and non-rural carriers in 10 states receiving high cost support, even though there are very rural high cost areas in states like Oregon and Florida that could benefit from universal service support (a real problem); and
3. Growing Support to CETCs is based upon an increasingly competitive marketplace in rural areas and consumers' increasing preference for wireless service, which is not a problem in itself if CETCs are furthering the goals of universal service.



USF Reform: Alltel Reform Proposals

Step Three: Developing Solutions Based Upon The Facts, Law, and Good Public Policy.

Immediate Reform Measures

1. **Combine Study Areas** – by consolidating study areas owned by the same company, ILECs, and CETCs in ILEC areas, would obtain support based upon the combined attributes of the entities with separate study areas, which should result in USF efficiencies.
2. **Move the Largest Rural ILECs to A Forward-Looking System** – by moving rural ILECs with 50,000 or more access lines in a state to the same forward-looking cost-based universal service funding mechanism as in other areas served by so-called non-rural ILECs, support for all ETCs in those areas (ILECs and CETCs), would be calculated based upon an efficient carrier's costs of service.
3. **Recalculate Support In Non-Rural Areas** – revise the synthesis model to ensure that the highest cost non-rural areas are eligible for universal service support.



USF Reform: Alltel Reform Proposals

Step Three: Developing Solutions Based Upon The Facts, Law, and Good Public Policy.

Immediate Reform Measures (cont'd)

4. **Freeze Per Line Support Upon CETC Entry Into The Market** – for those rural ILEC areas obtaining support based upon their embedded costs, the universal service support on a per line basis would be determined once a CETC enters the market.
5. **Require ILECs To Disaggregate Support and Require All ETCs To Spend USF Support In High-Cost Areas** – rural ILEC costs vary within their study areas in a cost-based manner, so support should be calculated based upon their disaggregated costs; all ETCs would then need to demonstrate in the annual certification process that all USF support received has been spent in a manner that benefits rural consumers.

Conclusion

- USF growth since 1999 is not primarily due to CETCs.
- Wireless carriers now contribute more than any other group to the USF.
- Wireless carriers contribute significantly more in USF support than they receive.
- Wireless carriers are using USF support to benefit rural consumers and communities, consistent with the goals of universal service as envisioned by Congress, the FCC and the state commissions.
- The USF support received by wireless carriers based upon the per line support received by the ILECs should be maintained as part of universal service reform.
- Efficiencies in the universal service system can be realized through forward-looking costs utilizing the most efficient technology and/or other reform to the current funding mechanisms.

Conclusion

- The purpose of USF is to support service for consumers in rural areas – not to promote the interests of any particular group of providers.
- Wireless CETCs are serving the public interest by increasing service to consumers in rural high-cost areas
- The real USF problem is that the existing illogical USF rules are designed to maintain revenues for a selected category of carriers, and fail to give incentives for efficiency or increased deployment.
 - Competition and targeting support to promote efficient service are the solution, not the problem!

Conclusion

- Establishing per-line support levels for all carriers based on efficient cost-based levels is a more efficient funding mechanism than allowing carriers to obtain support based upon their own costs, which can be manipulated to achieve certain results.
- By implementing the reform measures identified herein, efficiencies are realized in the support payments to ILEC and, through portability, to the CETCs as well.
- Requiring CETCs to prepare and submit cost studies would not only be inefficient use of resources, but would also require the development of a system of accounts based upon a competitive carrier's cost structure and reporting system.



Exhibit A: USF Support Comparison

Nebraska and South Dakota Case Studies

USF Support Mechanisms	SD ILECs	NE ILECs	CETCs
Federal USF Support	\$56,154,616 per year	\$54,518,784 per year	SD: \$28,939,628 per year NE: \$28,939,628 per year
State USF Support	None	\$75M	None
Access Charges	14.47 cents per MOU	1.5 cents to 4.5 cents per MOU	None